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Message Text

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21
ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PA-01

PRS-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W
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R 300150Z JUL 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 8150
INFO AMEMBASSY WELLINGTON

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 12/31/76
TAGS: EAID, EFIN, TN
SUBJ: TECHNICAL ASSISTANCE TO TONGA FOR SMALL INDUSTRIES CENTER PROJECT

1. ON JULY 20, ADB PRESIDENTAPPROVED TECHNICAL ASSISTANCE (TA) GRANT NOT TO EXCEED $50,000 EQUIVALENT TO FINANCE FOREX COST OF FURMULATING AN ECONOMICALLY VIABLE AND TECHNICALLY FEASIBLE PROJECT FOR ESTABLISHING A SMALL INDUSTRIES CENTER IN TONGA. BANK HAS PREVIOUSLY FINANCED A $1.3 MILLION LOAN AND TWO TA PROJECTS, TOTALLING $382,000, FOR TONGA.

2. TONGA IS A GROUP OF ISLANDS WITH TOTAL LAND AREA OF 288 SQ. MILES, POPULATION OF ABOUT 100,000, AND PER CAPITA GNP ESTIMATED AT U.S.$240 IN 1974. AGRICULTURE ACCOUNTS FOR OVER HALF OF GNP, WITH COCONUT AND BANANAS TOGETHER ACCOUNTING FOR ABOUT 75 PERCENT OF TOTAL EXPORT
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EARNINGS. BALANCE OF PAYMENTS IS CHARACTERIZED BY

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LARGE AND GROWING TRADE DEFICIT (U.S.$3.1 MILLION EQUIVALENT IN 1970/71, $6 MILLION IN 1974/75) OWING MAINLY TO SHARPLY RISING IMPORTS. IMMIGRANT REMITTANCES WHICH IN PAST HAVE FINANCED TRADE DEFICIT ARE UNLIKELY TO SEE FURTHER APPRECIABLE GROWTH SINCE IMMIGRATION POLICIES IN NEW ZEALAND HAVE LATELY STIFFENED. TONGA'S RESERVES WERE U.S.$5 MILLION AT END -1975, EQUIVALENT TO 3 MONTHS IMPORTS AT THE 1975 RATE.

3. DEVELOPMENT OF SMALL INDUSTRY WOULD NOT ONLY HELP TO CURTAIL TRADE DEFICIT THROUGH IMPORT-SUBSTITUTION, BUT WOULD HELP TO ALLEVIATE TONGA'S GROWING UNEMPLOYMENT PROBLEM. TONGA'S TRADITIONAL LAND TENURE SYSTEM, WHEREBY EACH ADULT MALE IS ALLOTTED 8 1/4 ACRES OF FARM LAND, HAS BECOME INCREASINGLY DIFFICULT TO IMPLEMENT OWING TO PROPULATION GROWTH AND LAND SHORTAGE. THE RESULTING MANPOWER SURPLUS CANNOT BE ABSORBED BY THE COUNTRY'S SMALL MANUFACTURING SECTOR WHICH PRESENTLY ACCOUNTS FOR ONLY 3 PERCENT OF GNP.

4. PROPOSED TA AIMS AT FORMULATING A VIABLE PROJECT FOR ESTABLISHING A SMALL INDUSTRIES CENTER AS A MODEST NUCLEUS FOR INDUSTRIAL DEVELOPMENT, CONSISTING PRIMARILY OF SIMPLE MANUFACTURING AND PROCESSING UNITS FOR IMPORT-SUBSTITUTION PURPOSES, BUT POSSIBLY LEADING TO LARGER EXPORT-ORIENTED INDUSTRIES IN THE FUTURE. STUDY WILL WORK OUT DETAILS OF A SUITABLE ORGANIZATION TO RUN THE SMALL INDUSTRIES CENTER. TA GRANT WILL FINANCE 5 MAN-MONTHS OF CONSULTANCY SERVICES. GOVERN-MENT HAS AGREED TO PROVIDE U.S.$7,000 EQUIVALENT LOCAL CURRENCY COMPONENT.

5. ADB DOC. R83-76 ON ABOVE PROJECT POUCHED JULY 29. UNDER PARA. 7.2 OF ADB'S GUIDELINES FOR TECHNICAL ASSISTANCE, TA PROJECTS IN AMOUNT NOT EXCEEDING $50,000 MAY BE APPROVED BY PRESIDENT AND DO NOT REQUIRE APPROVAL OF BOARD OF DIRECTORS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TECHNICAL ASSISTANCE, INDUSTRIAL PRODUCTION, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA11226
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760294-0347
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976075/aaaaadyf.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 02 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 JUN 2004 by ellisoob>; APPROVED <27 SEP 2004 by BoyleJA>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TECHNICAL ASSISTANCE TO TONGA FOR SMALL INDUSTRIES CENTER PROJECT
TAGS: EAID, EFIN, TN, RP, ADB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006